REPORT DOCUMENTATION PAGE

Form Approved
OMB No. 0704-0188

1. REPORT DATE (DD-MM-YYYY)	2. REPORT TYPE	3. DATES COVERED (From - To)
01-11-2013	FINAL	08 AUG 13 – 01 NOV 13

4. TITLE AND SUBTITLE
VIETNAM AND ASEAN: SHOULD THEY INTEGRATE?

5a. CONTRACT NUMBER

5b. GRANT NUMBER

5c. PROGRAM ELEMENT NUMBER

6. AUTHOR(S)

LTC Gavin J. Gardner

Paper Advisors: **COL(R)Mike McGaurvan & LTC Matthew Stanton**

5d. PROJECT NUMBER

5e. TASK NUMBER

5f. WORK UNIT NUMBER

7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES)

Joint Military Operations Department
Naval War College
686 Cushing Road
Newport, RI 02841-1207

8. PERFORMING ORGANIZATION REPORT NUMBER

9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)

10. SPONSOR/MONITOR'S ACRONYM(S)

11. SPONSOR/MONITOR'S REPORT NUMBER(S)

12. DISTRIBUTION / AVAILABILITY STATEMENT
Distribution Statement A: Approved for public release; Distribution is unlimited.
Reference: DOD Directive 5230.24

13. SUPPLEMENTARY NOTES A paper submitted to the Naval War College faculty in partial satisfaction of the requirements of the Joint Military Operations Department. The contents of this paper reflect my own personal views and are not necessarily endorsed by the NWC or the Department of the Navy.

14. ABSTRACT

The Socialist Republic of Vietnam's economic and trade growth appear to be linked to her accession into ASEAN and its trade liberalization policies. Despite Vietnam's compliance with the Common Effective Preferential Tariff (CEPT) Scheme in the ASEAN Free Trade Area (AFTA), Vietnam's use of non-tariff barriers conflicts with ASEAN policies. Vietnam uses non-tariff barriers to support its immature manufacturing businesses, protect its state-owned, agricultural industries and protect the health of her population. The author contends that these non-tariff barriers should be reduced and eventually eliminated upon acceptance of ASEAN nations' agreements of conformance and standards for products. The creation of a non-tariff barrier elimination schedule will allow Vietnam to demonstrate her continued commitment to ASEAN while also determining the timeline to influence her inefficient domestic industries that are currently supported by these non-tariff barriers. Finally, the author draws the conclusion between Vietnam's accession into ASEAN and the growth of the Gross Domestic Product (GDP) and trade.

15. SUBJECT TERMS
Vietnam, ASEAN, AFTA, CEPT Scheme, Non-Tariff Barriers

16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES	19a. NAME OF RESPONSIBLE PERSON
					Chairman, JMO Dept
a. REPORT	b. ABSTRACT	c. THIS PAGE			19b. TELEPHONE NUMBER (include area code)
UNCLASSIFIED	UNCLASSIFIED	UNCLASSIFIED		26	401-841-3556

Standard Form 298 (Rev. 8-98)

NAVAL WAR COLLEGE
Newport, R.I.

VIETNAM AND ASEAN: SHOULD THEY INTEGRATE?

by

Gavin J. Gardner

LTC, U.S. Army

A paper submitted to the Faculty of the Naval War College in partial satisfaction of the requirements of the Department of Joint Military Operations.

The contents of this paper reflect my own personal views and are not necessarily endorsed by the Naval War College or the Department of the Navy.

Signature: ____________________

01 November 2013

CONTENTS

ABSTRACT

Vietnam and ASEAN: Should She Integrate? The Socialist Republic of Vietnam's economic and trade growth appear to be linked to her accession into ASEAN and its trade liberalization policies. Despite Vietnam's compliance with the Common Effective Preferential Tariff (CEPT) Scheme in the ASEAN Free Trade Area (AFTA), Vietnam's use of non-tariff barriers conflicts with ASEAN policies. Vietnam uses non-tariff barriers to support its immature manufacturing businesses, protect its state-owned, agricultural industries and protect the health of her population. The author contends that these non-tariff barriers should be reduced and eventually eliminated upon acceptance of ASEAN nations' agreements of conformance and standards for products. The creation of a non-tariff barrier elimination schedule will allow Vietnam to demonstrate her continued commitment to ASEAN while also determining the timeline to influence her inefficient domestic industries that are currently supported by these non-tariff barriers. Finally, the author draws the conclusion between Vietnam's accession into ASEAN and the growth of the Gross Domestic Product (GDP) and trade.

Introduction

The Socialist Republic of Vietnam has dramatically improved its economic growth and fortune in a little over twenty-five years. Vietnam is now considered a middle-income country, with annual income per person in excess of $1000.[1] Likewise, the population transformed from over 60% living in extreme poverty, defined as less than $1 per day, to now less than 12% of the population existing in this condition.[2] In retrospect, many Vietnamese Government policies and actions led to this positive economic change in Vietnam.

By the early 1990s, Vietnam was fully aware of the growing regionalization and globalization of the world.[3] Vietnam understood that economic policy changes were required to achieve economic growth. Vietnam's policy of *doi moi* would be the significant policy change for how Vietnam conducted economic activities. Likewise, Vietnam determined that a regional partnership would also help the country's economical development. The Association of South East Asian Nations (ASEAN) had demonstrated its economic potential with its founding nations. Thus, Vietnam sought formal integration into ASEAN with the goal of becoming a full member state.[4] On July 28, 1995, Vietnam achieved her goal and became a full member nation of ASEAN.[5]

As a full member of ASEAN, Vietnam agreed to fulfill the mandates, policies and agreements of the ASEAN Free Trade Area (AFTA).[6] AFTA facilitates free trade amongst the ASEAN nations by eliminating tariffs and non-tariff barriers of member nations over specified periods of time developed for each nation.[7] However, in 2013, Vietnam still executes non-tariff barriers despite ASEAN's policies. The author will demonstrate that

Vietnam should eliminate its non-tariff barriers over a eight year period to further integrate into ASEAN and achieve increased economic growth.

Background

The Communist Party of Vietnam's first significant policy change occurred in 1986. Their policy of *doi moi*, renovation, was in response to the serious shortages of food supplies during the past decade due to inefficient, state-run, collective farms and a nearly 800% annual price inflation.[8] The *doi moi* policy was aimed at focusing government energy and resources to establishing an environment that allowed for economic decentralization, local autonomy and initiative to spur economic activity and growth.[9] *Doi moi* was a significant change in economic policy and execution for the communist nation that previously relied on central planning and execution for all major economic activities. Therefore, six policy areas were modified under this new economy. These areas were: increased independence of state-owned enterprises, price liberalization, ownership diversification, encouragement of direct foreign investment, agriculture prioritization, and separate commercial and central banking functions.[10] Thus, the Communist Party of Vietnam had instituted a new economy based on "a market-oriented multi-sector commodity under state guidance."[11]

The *doi moi* policy changes had positive effects on Vietnam's agricultural industry. In a little over eight years, Vietnam went from importing rice to feeding its population and becoming the world's second leading exporter of rice.[12] These efforts in the agricultural industry helped lead to further changes in the economic policies of Vietnam.

Despite this success internally, for Vietnam to go where her leaders desired, Vietnam needed to enter the international markets to obtain direct foreign investment. The foreign direct investment was required to transform the Vietnamese economy from a solely agricultural-based economy to a more industrialized economy. Vietnam's leaders believed in her economic potential and wanted to enter the world's economy to trade her goods. To accomplish this vision, Vietnam looked at what her fellow, economically successful, neighbors in Southeast Asia were doing to transform their agricultural economies. The countries of ASEAN appeared as the means to meet their desired ends.

On August 8, 1967, ASEAN was established with the signing of the ASEAN Declaration (Bangkok Declaration) by the Founding Fathers of ASEAN: Indonesia, Malaysia, Philippines, Singapore and Thailand.[13] ASEAN has numerous aims and purposes, but economic growth through trade liberalization amongst the ASEAN nations is one of the main cornerstones of the association. The founding nations of ASEAN realized that individually each nation could compete in the world market; however, their size would leave them at a disadvantage when it came to their regional powers of China and Japan.[14] Therefore, the founding nations stated if they formed ASEAN, then they could ensure that their limited resources, linked together and not working against each other, would become quite competitive and a serious actor in the international market.[15] Thus, in a globally connected world where trade facilitates economic growth, ASEAN's economic and trade policies would emphasize internal trade liberalization and cooperative stances to garner trade advantages with the other nations of the world.

AFTA - Leveling the Trading Ground for the Benefit of All ASEAN Partners

ASEAN's founders clearly understood that free trade amongst its member states was a necessity for economic growth. Therefore, ASEAN developed the AFTA agreement at their fourth summit as part of the Singapore Declaration of 1992.[16] The purpose of AFTA is to create a free trade area in Southeast Asia. This free trade area would ensure the removal of obstacles to freer trade among member countries by reducing tariffs to 0-5% on traded manufactured goods and processed agricultural products. Additionally, AFTA would set forth the removal of non-tariff barriers and quantitative restrictions that limit the entry of imports and inhibit trade.[17] AFTA's original implementation timeframe for the original five member nations would be in ten years (1993-2003).[18] New member nations into ASEAN would have a longer implementation timeframe that ASEAN leaders would all agree upon. Since Vietnam did not gain membership until 1995, Vietnam's timeframe for implementing AFTA's trade policies was no later than 2006.[19]

The main objectives of AFTA are to increase ASEAN’s competitiveness as a production base for both the regional and world markets by eliminating intra-ASEAN tariffs and non-tariff barriers.[20] By taking these actions, ASEAN states that trade would increase, more foreign direct investments would flow into the region, and all members’ economies would experience positive growth. Likewise, with the growth of intra-regional trade, ASEAN consumers would have more choices and better quality consumer products to purchase at competitive prices.[21]

Under AFTA, controlling tariffs of ASEAN nations is one of the crucial foundations of the agreement. AFTA's control mechanism for tariffs is the Common Effective Preferential Tariff (CEPT) Scheme.[22] The CEPT Scheme is a cooperative arrangement among ASEAN member countries that reduces intra-regional tariffs and removes non-tariff barriers over a 10-year period. It was implemented on January 1, 1993. The goal of CEPT was to reduce tariffs on all Inclusion List (IL) manufactured goods to 0-5% by the year 2003.[23] The products in the IL must immediately have their tariffs rates reduced, remove their quantitative measures and remove other non-tariff barriers.[24] The original CEPT scheme covered all manufactured products (capital goods and processed agricultural products) and excluded unprocessed agricultural products. However, by 1994, ASEAN elected to phase in unprocessed agricultural products into the CEPT scheme.

As previously stated, Vietnam had until 2006 to complete the CEPT Scheme for their Inclusion List goods. Vietnam demonstrated her commitment to ASEAN's AFTA CEPT policies by implementing the reduction of tariffs on her trade throughout the ten year implementation timeframe.[25] Consequently, Vietnam dropped all of their tariffs on IL products to the 0-5% range in accordance with the CEPT scheme.[26] Likewise, the Vietnamese Government continuously monitors all future manufactured items and implements the tariff reductions required to meet the CEPT schedules.[27] Therefore, Vietnam's efforts integrated her into ASEAN's AFTA policies with regards to tariffs. However, non-tariff barriers are still a point of conflict between Vietnam and ASEAN.

Non-Tariff Barriers

CEPT is AFTA's mechanism for eliminating tariffs on goods between the ASEAN members to facilitate fair, intra-regional trade. However, despite the success of CEPT and the lowering of tariffs, another method of inhibiting trade liberalization appeared within ASEAN that must be eliminated to achieve AFTA's purpose. This new method to reduce trade is called a non-tariff barrier. To better understand non-tariff barriers, one must determine what one is and what purpose a non-tariff barrier serves a government.

Economists define non-tariff barriers as restrictions that result from prohibitions, conditions, or specific market requirements that make importation or exportation of products difficult and, most likely costly.[28] Non-tariff barriers come in many forms and examples.

The most common form of non-tariff barrier is the requirement for a licensing regime on an imported product. It works by the government requiring businesses to receive a government license to import a certain type of good into the country. By requiring a business license to import goods, the government can control through the licensing process the amount of imports and the time period the country receives imported goods. This barrier clearly limits trade and reduces competition in a country. The government is also able to drive up the cost or availability of the import by delaying the licensing process. This cost increase is passed onto the consumer who may elect not to purchase this more expensive item over a potential domestic competitor product.

Another form of non-tariff barrier is a restriction on imports based on a government's concern over sanitary or phytosanitary standards. These forms of barriers are primarily used with the importing of food and plants respectively. These types of barriers exist when a government is concerned over the health, safety and pest control standards of imported goods.[29]

Due to the numerous types of non-trade barriers, the obvious question is why ASEAN members would use these methods to reduce trade despite a formal agreement to support trade liberalization. The WTO and most economists universally agree that the primary reason governments use non-tariff barriers is to support their own internal government public policy objectives.[30] These public policies cover areas that governments attempt to manipulate through the use of non-tariff barriers.

The first, and most common area, is to protect a country's domestic industry and the corresponding domestic employment of its citizens. By executing these non-tariff barriers, a government can reduce imports when it believes that the increased competition will threaten its domestic industries.[31] Domestic companies that are not competitive when compared to the imported goods may have to fire workers or possibly shift their production abroad to cut costs and remain competitive. Obviously this leads to a country's higher unemployment rate, reduced GDP and a less than happy population.

A government's second area for use of non-tariff barriers is to protect its citizens from a good that the government deems as unsafe.[32] The food import industry provides ample opportunity for these barriers. An example of these barriers is when a government states an imported product was not packaged to their nation's internal standards, contains too high an amount of harmful chemicals, or the barrier is required to prevent the spread of a disease or a pest into the country (i.e. bird flu, pests, mad cow disease).

The third area is the protection of infant industries or state operated industries. By limiting imports, a government protects its domestic industries so they remain domestically competitive and continue to employ the local population. These barriers provide stability to the government and clearly hinder trade. Countries that are agriculturally based and attempting to shift to a more industrialized capability tend to implement these forms of barriers.[33] Vietnam clearly falls into this category and, as will be shown later, executes these barriers to protect her immature manufacturing businesses.

The fourth and final area that countries use non-tariff barriers is in retaliation to another trading nation. An example is when a country disagrees with the public policy of a fellow trading nation, it may enact barriers that are not tariffs, but impose new government standards or inspections that unnecessarily delay an import into the country. These barriers are unnecessary if the local population agrees with the government and boycotts the imports.

However, if these barriers are used, inevitably they do drive up the cost of the import and tend to make the import less competitive in the domestic market.[34]

In summary, governments can use multiple types of non-tariff barriers for their government purposes and requirements. Again, these non-tariff barriers limit trade liberalization and are in violation of AFTA's policies. Therefore, the leaders of ASEAN had to address this issue.

ASEAN's Response to Non-Tariff Barriers

ASEAN plainly sees non-tariff barriers as a significant problem within the AFTA agreement. At the ASEAN Economic Ministers meeting on August 29, 2012, the ministers urged the member nations to reduce their non-trade barriers as it was limiting their intra-trade.[35] ASEAN's Secretary General, Surin Pitsuwan, stated all ASEAN countries must focus on reducing their non-tariff barriers to increase their intra-regional trade which ASEAN believes will protect them from future US and European Union financial crises when they arise.[36] Obviously, the ASEAN leadership denounces the use of these barriers and reminds the members of their requirement to eliminate their use as part of the AFTA agreement. ASEAN goal is to have integrated economies by 2015.[37] This goal will only be met if all the countries eliminate their non-tariff barriers.

Under AFTA, all ASEAN member countries are required to eliminate all non-tariff barriers within five years of their enjoyment of concessions under CEPT.[38] ASEAN understands the barrier problem and is attacking it with the following methodology. First, ASEAN agreed to prioritize the sectors which figure widely in intra-regional trade, such as electrical appliances and machinery, base metals, plastics, and chemicals.[39] These products were the first targeted area for eliminating the barriers. The next step was requiring the member nations to standardize all sanitary and phytosanitary measures for all traded crop and livestock. ASEAN created these standards and conformance measures. Now it is up to member nations to comply with the standards and not enact further barriers.[40] Likewise, making standard customs procedures and handling across AFTA will also inhibit these barriers. Therefore, all ASEAN countries, based on their timeline to fully implement CEPT, are also required to eliminate their non-tariff barriers against other ASEAN nations.

Vietnam's Use of Non-Tariff Barriers

As previously indicated, Vietnam is in the midst of rapidly developing its economy from an agricultural based economy to a more industrialized economy. Likewise, Vietnam has shown great effort and commitment to fulfilling her AFTA requirements of eliminating tariffs on her goods to fellow ASEAN nations. However, according to ASEAN, Vietnam continues to operate non-tariff barriers against fellow ASEAN members.[41] These barriers appear to support the Vietnamese government's public policies of protecting immature, domestic industries and the health and welfare of its citizenry. However, they also visibly protect state-owned enterprises that are not profitable without these barriers.

The most current, formal ASEAN list of examples of non-tariff data the author could observe are from 2006. This data from ASEAN provides the types and values of non-tariff barriers Vietnam exercised in 2006.[42] The first most common non-trade barrier conducted by Vietnam is the prohibition to sensitive items related to the motorcycle. In 2006, Vietnam had over twenty non-tariff barriers on motorcycles and their components.[43] Upon investigation, the Vietnamese government enacted these barriers to protect its manufacturing of motorcycle components. Before 2000, Vietnam imported nearly 100% of its motorcycle components and now produces over 70% of those components.[44] The Vietnamese Government states supporting its growing industries is a priority and motorcycle manufacturing is one of those key industries. These non-tariff barriers are a classic example of protecting a infant industry. By executing these barriers, Vietnam is able to employ thousands of workers and assist in creating the industrialization the government wants to create while denying cheaper, imported components.

Similar Vietnamese Government imposed non-tariff barriers exist for large motor vehicles not designed for people transportation. Examples of these types of vehicles are large trucks designed for cargo, towing, concrete emplacement etc. On the surface, these barriers make no sense until research shows that Vietnam signed a deal with Germany Trucking Company, MAN, to begin manufacturing large trucks in Vietnam.[45] By agreeing to this manufacturing deal with MAN, the Vietnamese government emplaced these barriers on importing truck parts to protect their domestic production of these goods. Again, here is another classic example of non-tariff barriers to protect their immature manufacturing industry built with foreign direct investment.

Vietnam executes automatic licensing regimes as its form of non-tariff barriers when it comes to all manner of livestock, agricultural products (such as cotton, tobacco, salt, and rice) and fauna imported into the country. The government's rationale is to ensure the quality of the imports with regards to their population.[46] However, these barriers also support domestic agricultural activities and the Vietnamese government is aware that agriculture is still the country's main source of wealth so they must protect its agricultural industry from cheaper imports.[47] Even with *doi moi*, many of these agricultural industries are still state-owned enterprises and not entirely competitive on the open market. Protecting these enterprises is critical to the government. Hence, the use of licensing regimes is used despite

ASEAN's development of standards for the member nations to incorporate into their government importation process.

Therefore, Vietnam uses non-trade barriers to support its immature manufacturing businesses and protect its state-owned, agricultural industries. These efforts are counter to the AFTA policies and are obvious violations of the ASEAN agreements. By failing to eliminate these non-tariff barriers, Vietnam violates ASEAN policies, limits its ASEAN integration, creates unfair trade practices with its fellow ASEAN nations and opens the possibility for significant trade retaliation from other nations within ASEAN.

Why Non-Tariff Barriers for Vietnam are Useful

Not all economists argue that Vietnam's non-tariff barriers are bad for government policy. These barriers are critical to protecting Vietnamese health, environmental safety and public safety. Products that require scrutiny and need strict control that non-tariff barriers provide are commonly found in fertilizers, cosmetics, livestock, and plant imports.[48] Therefore, the Vietnamese Ministries of Agriculture and Public Health state that by enacting licensing regimes and other import quotas they are ensuring the safety of the population. One can hardly fault the Vietnamese Government for ensuring safety standards are met prior to allowing the introduction of products to their country.

On the surface alone these non-tariff barriers make a sound argument for the government. However, in nearly all cases, the Vietnamese Government openly makes trade protectionist policies to go along with their desire to protect its public and environment. To explain, the Ministry of Public Health instituted non-tariff barriers for some imported pharmaceuticals. Upon further investigation, these non-tariff barriers were only instituted on pharmaceuticals where the domestic production met the domestic requirements. Thus, to limit competition in the open market, the ministry enacted these barriers to protect domestic pharmaceutical manufacturing to keep import prices above the domestic producers.[49] Hence, the Vietnamese Government failed to demonstrate that the barriers were tied to a medical standard that they were enforcing. No doubt this type of barrier is exactly the non-tariff barriers that ASEAN wishes to eliminate.

As previously stated, ASEAN is working to create the standards for which all the member nations can agree upon for safety standards. Instead of working towards a common standard, Vietnam is using the non-tariff barrier as their method of meeting an internal standard and protecting domestic production. If the standards for customs can be agreed upon by the ASEAN nations, then Vietnam should implement these standards to eliminate these non- tariff barriers.

As discussed previously, a government may use non-tariff barriers as retaliation to another country's trade policies and barriers. Vietnam has clearly demonstrated the use of non-tariff barriers to protect its manufacturing and agricultural industries. Within ASEAN, Vietnam faces potential tariff and non-tariff barrier retaliation from its fellow members. These efforts would reduce trade for all nations involved. However, the growth of Vietnam's Gross Domestic Product (GDP) and trade appear to be linked to her integration with ASEAN.

Vietnam's Growth Due to ASEAN

To appreciate ASEAN's impact on Vietnam, a look at Vietnam's economic growth prior to admission through 2011 is required. In 1986, Vietnam's Gross Domestic Product (GDP) was $14.6B and represented a 3.3% rise over the previous year prior to the implementation of *doi moi*.[50] By 1990, with the initial changes facilitated by *doi moi*, Vietnam's GDP had grown by an average of 5.1% per year.[51] Though this growth was positive and above previous years, it did not facilitate the growth of trade that Vietnam's leaders desired. Hence, Vietnam planned to expand her foreign trade by gaining entrance into ASEAN and leveraging its cooperative trade policies.

As previously stated, Vietnam gained full membership into ASEAN in 1995. With access now to favored trading status within ASEAN, coupled with ASEAN's ability to weigh in on the global markets, Vietnam's economy began to soar. To illustrate, in 1995, Vietnam's GDP was $20.7B.[52] However, from 1995 to 2000, Vietnam's GDP would average a 7.51% growth despite the Asian financial crisis that began in 1997.[53] Thus, it seems Vietnam's integration into ASEAN and its economic policies had positive impacts on Vietnam's GDP.

Vietnam's economy continued to grow as she further integrated into ASEAN and its trade liberalization policies. From 2001 to 2011, Vietnam's economy went from a GDP of $31.2B to $103.5B respectively during this ten year period.[54] This rate of GDP growth represents an average of 7.7% per year over this time.[55] This economic performance indicates that Vietnam's integration into ASEAN led to significant growth in her GDP over previous non-ASEAN years.

Vietnam's Trade Growth With ASEAN

A critical part of Vietnam's economic growth over the past twenty years was her entry into the global economy and trade. Vietnam's trade directly rose upon her admittance into ASEAN. To illustrate, from 1986 to 1990, Vietnam's exports were $1.4B and imports were $2.5B. [56] From 1991 to 1995, leading up to and into Vietnam's admittance into ASEAN, Vietnam's exports were only $3.4B and imports were $4.5B.[57] However, once a member of ASEAN, from 1996 to 2000, Vietnam's exports grew to $10.4B and imports were $12.3B.

This was over a 300% growth of exports in a five year period. This dramatic growth would continue from 2001 to 2005, where exports would rise to $21.8B and imports to $25.5B. By 2011, the World Trade Organization reported that Vietnam's total exports were $97B and imports were $107B.[58] This dramatic growth of Vietnam's trade has brought about the economic growth that Vietnam's leaders had envisioned. Therefore, just like Vietnam's GDP, Vietnam's impressive growth in trade appears to be linked to entry and participation in ASEAN and its trade liberalization policies.

A Way Ahead For Vietnam

As indicated, Vietnam's economic growth appears to be linked to its admittance and integration with ASEAN. The growth of her GDP and trade has occurred during the timeframe where Vietnam successfully executed AFTA's CEPT Scheme. However, by using non-tariff barriers to protect domestic industries, Vietnam is failing to continue to integrate into ASEAN and its AFTA policies. It is doubtful ASEAN would dismiss Vietnam from the association. On the other hand, Vietnam may well see increased non-tariff barriers against her exports within ASEAN as retaliation. Vietnam has the opportunity to preclude these hostile actions, avoid possible economic decline, and continue its integration into ASEAN.

Like AFTA's CEPT Scheme which allowed Vietnam to lower tariffs over time to attain favorable trading condition, Vietnam needs to propose to ASEAN a non-tariff barrier elimination schedule to ensure its domestic industries are competitive and prevent retaliatory barriers from within ASEAN. This elimination schedule will again demonstrate Vietnam's commitment to ASEAN and will allow for a transition out of inefficient industries within Vietnam. Likewise, ASEAN's continued development of conformity and standards for all traded products are critical to the success and implementation of any non-tariff schedule.

The non-tariff barrier schedule proposed would be handled over the next eight years. This timeframe will allow the Vietnamese government to reduce and, eventually, eliminate the barriers just like they were able to reduce and eliminate tariffs under the CEPT Scheme. The first year would immediately eliminate 10% of the non-tariff barriers. Vietnam can choose the industries that can either best handle these changes (i.e. the current profitable industries that really do not require these barriers) or from the state-owned industries that are uncompetitive in an open market. Vietnam would also use this first year to forecast the elimination scheme for the remaining domestic industries. By taking these actions in the first year, Vietnam will clearly demonstrate her seriousness on the issue to both the internal, uncompetitive businesses and to ASEAN and her members.

The second year would eliminate the next 10% of the barriers. Again, Vietnam would determine what industries to effect by these eliminations. For the third through sixth years an annual elimination of 15% of the barriers would occur. For the seventh year the plan would be for the remaining 20% of the non-tariff barriers to be eliminated. This methodology will allow for the eighth year to be a safety year if the previous year's schedules fall off their target.

This non-tariff barrier elimination schedule allows for transition of inefficient industries to a more profitable status in a trade liberalization arena. Likewise, it will allow the Vietnamese Government a methodology of reducing funding to the state-owned enterprises that are not competitive in the long run. The government can use this savings of funds towards other areas it deems are important. By coupling this program to ASEAN's conformance and standards measures, Vietnam also places responsibility upon all ASEAN members to agree upon standards and then implement these standards. Thus, this

Vietnamese effort will demonstrate to its ASEAN partners its commitment to integration within the association. Vietnam cannot afford to ignore these barriers as her past economic gains appear to be linked with its accession and integration with ASEAN.

Conclusion

Over twenty-five years ago, Vietnam started the process to change its economy based on the *doi moi* policies. These policies led to a significant change in the Vietnamese Government's handling of the economy and the vision to transform the economy from an agricultural based economy to a more manufacturing economy. Consequently, Vietnam's membership into ASEAN appears to have brought more economic and trade growth to the country.

As a member of ASEAN, Vietnam is obligated to enact the trade policies and agreements of ASEAN. In particular, the CEPT Scheme of AFTA is critical to the development and trade liberalization of ASEAN. Vietnam demonstrated through her actions her commitment to reducing tariffs as part of the CEPT Scheme. Hence, Vietnam must continue to honor and execute these CEPT tariff policies as part of its integration with ASEAN.

Likewise, as the ASEAN leadership directed the reduction and elimination of non-tariff barriers, Vietnam must also work to reduce and eliminate these barriers. As ASEAN develops and agrees upon its conformance and standards for products, Vietnam should endorse and follow those new standards. By executing these agreed upon standards, Vietnam could reduce and eliminate its current non-tariff barriers. These standards will ensure the safety of Vietnamese citizens and further enable trade liberalization. Also, by reducing and eliminating its barriers, Vietnam will eliminate non-profitable state-owned industries and prevent non-tariff retaliation efforts by its fellow ASEAN nations.

Vietnam should develop its own non-tariff elimination barrier schedule so she can demonstrate commitment to ASEAN while also determining the industries that are currently supported by these barriers. This effort has both short term and long term implications to Vietnam and provides Vietnam a methodology for addressing this ASEAN concern.

In conclusion, by executing the current CEPT tariff scheme and eliminating non-tariff barriers, Vietnam will further integrate its economy into ASEAN. The historical data for Vietnam's economy and trade demonstrate the success achieved by Vietnam due to its integration into ASEAN. The future will only be better once Vietnam continues these trade policies with its ASEAN partners.

Recommendations

- **Vietnam continues to execute the AFTA CEPT Scheme**
- **Vietnam collaborates with ASEAN on all product conformance and standards for products**
- **Vietnam develop and execute a non-tariff barrier elimination schedule below:**
    - **10% elimination in first year**
    - **10% elimination in second year**
    - **15% elimination third through sixth year**
    - **20% elimination in seventh year**
    - **Eighth year remains open to catch any missed previous years schedule**

NOTES

[1] Suiwah Leung, "Viet Nam: Economy," Europaworld Web. Accessed on August 30, 2013, http://www.europaworld.com/entry/vn.ec.

[2] Ibid.

[3] S. Pushpanathan, "ASEAN Connectivity and the ASEAN Economic Community," ASEAN. Accessed on August 30, 2013, http://www.aseansec.org/asean-connectivity-and-the-asean-economic-community-by-s-pushpanathan-deputy-secretary-general-of-asean-for-asean-economic-community/.

[4] Juliet Love, ed. *The Far East and Australasia 2013*, (New York: Routledge) 1281.

[5] ASEAN Member States, ASEAN. Accessed on August 18, 2013, http://www.aseansec.org/asean-member-states/.

[6] S. Pushpanathan, "ASEAN Connectivity and the ASEAN Economic Community."

[7] Non-Tariff Barriers, ASEAN. Accessed September 20, 2013, http://www.asean.org/communities/asean-economic-community/item/non-tariff-barriers.

[8] Juliet Love, ed. *The Far East and Australasia 2013*, 1278.

[9] Ibid.

[10] Ibid.

[11] Ibid.

[12] Suiwah Leung, "Viet Nam: Economy".

[13] Overview, ASEAN. Accessed on September 20, 2013, http://www.aseansec.org/overview/.

[14] The Founding of ASEAN, ASEAN. Accessed on September 20, 2013, http://www.aseansec.org/the-founding-of-asean/.

[15] Ibid.

[16] The ASEAN Free Trade Area (AFTA), ASEAN. Accessed on September 5, 2013, http://www.asean.org/communities/asean-economic-community/category/asean-free-trade-area-afta-council.

[17] Ibid.

[18] Ibid.

[19] Ibid.

[20] Ibid.

[21] ASEAN Free Trade Area (AFTA): An Update, ASEAN. Accessed September 20, 2013, http://www.asean.org/communities/asean-economic-community/item/asean-free-trade-area-afta-an-update.

[22] The ASEAN Free Trade Area (AFTA), ASEAN.

[23] Ibid.

[24] ASEAN Free Trade Area (AFTA): An Update, ASEAN

[25] Joint Media Statement of the Nineteenth Meeting of the ASEAN Free Trade Area (AFTA) Council Vientiane, 27 September 2005, ASEAN. Accessed on October 8, 2013, www.mof.gov.vn/portal/pls/portal/btc.download_file2?DocID=5090.

[26] ASEAN Free Trade Area (AFTA), The Malaysia External Trade Development Corporation. Accessed on October 8, 2013, http://www.matrade.gov.my/en/malaysia-exporters-section

[27] The Ministry of Finance, Socialist Republic of Vietnam, "CEPT Compliance," Accessed on October 8, 2013, http://www.mof.gov.vn/portal/page/portal/mof_en/dn?pers_id=2420195&item_id=2511714&p_details=.

[28] Non-Tariff Barriers to Trade, Non-Trade Barriers. Accessed on September 22, 2013, http://www.tradebarriers.org/ntb/non_tariff_barriers.

[29] Non-tariff measures and the WTO, VOX web. Accessed on September 22, 2013, http://www.voxeu.org/article/trade-barriers-beyond-tariffs-facts-and-challenges.

[30] Ibid.

[31] The Basics Of Tariffs And Trade Barriers, Investopedia Web. Accessed on September 22, 2013, http://www.investopedia.com/articles/economics/08/tariff-trade-barrier-basics.asp.

[32] Ibid.

[33] Ibid.

[34] Ibid.

[35] ASEAN economic ministers voice concern about non-tariff barriers, The Nation Web. Accessed September 20, 2013, http://www.nationmultimedia.com/business/Asean-economic-ministers-voice-concern-about-non-t-30189283.html.

[36] Ibid.

[37] Michelle Remo, "Trade costs threaten Asean integration," Business Inquirer Web. Accessed on September 20, 2013, http://business.inquirer.net/135867/trade-costs-threaten-asean-integration.

[38] Elimination of Other Non-Tariff Barriers, ASEAN. Accessed on September 20, 2013, http://www.asean.org/communities/asean-economic-community/item/elimination-of-other-non-tariff-barriers.

[39] Ibid.

[40] Standards and Conformance, ASEAN. Accessed on September 22, 2013, http://www.asean.org/communities/asean-economic-community/category/standards-and-conformance.

[41] Non-tariff Measures Database - Vietnam, ASEAN. Accessed on September 22, 2013, http://www.asean.org/communities/asean-economic-community/item/non-tariff-measures-database.

[42] Ibid.

[43] Ibid.

[44] Bich Van, "Supporting Industry of Motorcycle Manufacturing," Vietnam Pictorial Web. Accessed September 22, 2013, http://vietnam.vnanet.vn/vnp/en-us/30/41771/print/default.aspx.

[45] My Ahn, "Truck Industry in Vietnam," VTOWN Web. Accessed on September 22, 2013, http://vtown.vn/en/news/truck-industry-in-vietnam.html.

[46] Non-tariff Measures Database - Vietnam, ASEAN.

[47] Vo Thanh, "Vietnam's trade liberalization and international economic integration," China Institute for Reform and Development. Accessed on September 6, 2013, http://www.chinareform.org/publications/reports/200504/t20050416_111302.htm.

[48] Non-Tariff Barriers in Vietnam, Center for International Economics Web. Accessed on September 27, 2013, http://www.thecie.com.au/content/publications/cie-vietnam_ntb_report.pdf.

[49] Ibid.

[50] Vietnam GDP, Trading Economics Web. Accessed on 20 September 2013, http://www.tradingeconomics.com/vietnam/gdp

[51] Vietnam - Real GDP Growth, Index Mundi Web. Accessed on September 20, 2103, http://www.indexmundi.com/g/g.aspx?c=vm&v=66

[52] Vietnam GDP, Trading Economics Web.

[53] Non-Tariff Barriers, ASEAN.

[54] Vietnam GDP, Trading Economics Web.

[55] Vietnam - Real GDP Growth, Index Mundi Web.

[56] Tran Kien, "Impacts of Trade Liberalization on Employment," Hompi.sogang Web. Accessed on September 20, 2013, http://hompi.sogang.ac.kr/gsis/contents/faculty/heo/Trade%20Employment.pdf.

[57] Ibid.

[58] World Trade Developments, World Trade Organization Web. Accessed on September 20, 2013, http://www.wto.org/english/res_e/statis_e/its2012_e/its12_world_trade_dev_e.pdf.

SELECTED BIBLIOGRAPHY

ASEAN Free Trade Area (AFTA): An Update. ASEAN. Accessed September 20, 2103. http://www.asean.org/communities/asean-economic-community/item/asean-free-trade-area-afta-an-update.

Elimination of Other Non-Tariff Barriers. ASEAN. Accessed on September 20, 2103. http://www.asean.org/communities/asean-economic-community/item/elimination-of-other-non-tariff-barriers.

Non-Tariff Barriers in Vietnam. Center for International Economics Accessed on September 27, 2013. http://www.thecie.com.au/content/publications/cie-vietnam_ntb_report.pdf.

Non-Tariff Barriers. ASEAN. Accessed on September 20, 2013. http://www.asean.org/communities/asean-economic-co.

Non-Tariff Barriers. Non-Tariff Barriers. Accessed on September 22, 2013. http://www.asean.org/communities/asean-economic-community/item/non-tariff-barriers.

Thanh, Vo. "Vietnam's trade liberalization and international economic integration," China Institute for Reform and Development. Accessed on September 6, 2013. http://www.chinareform.org/publications/reports/200504/t20050416_111302.htm.

The ASEAN Free Trade Area (AFTA). ASEAN. Accessed on September 20, 2013. http://www.asean.org/communities/asean-economic-community/category/asean-free-trade-area-afta-council.

The Basics Of Tariffs And Trade Barriers. Investopedia. Accessed on September 22, 2013. http://www.investopedia.com/articles/economics/08/tariff-trade-barrier-basics.asp.